

# City of Detroit


## CITY COUNCIL

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TO: John W. Prymack, Director  
Greater Detroit Resource Recover Authority

FROM: Irvin Corley, Jr., Fiscal Analysis Director 

DATE: April 20, 2007

RE: 2007-08 Budget Analysis

Attached is our budget analysis regarding your department's budget for the upcoming 2007-08 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers  
Council Divisions  
Auditor General's Office  
Roger Short, Chief Financial Officer  
Pam Scales, Budget Department Director  
Charleta McInnis, Budget Department Team Leader  
Renee Short, Budget Manager II  
Monica Johnson, Head Accountant-GDRRA  
Kandia Milton, Mayor's Office

## Greater Detroit Resource Recovery Authority

### FY 2007-08 Budget Analysis by the Fiscal Analysis Division

The City of Detroit/Resource Recovery Agreement specifically mandates that "the City shall budget, appropriate and requisition City funds for payment of the Tipping Fee . . . ". It further states that " the City hereby recognizes and affirms that its obligations to pay Tipping Fees . . . are full faith and credit obligation of the City . . . The City expressly and irrevocably pledges its full faith and credit for the prompt and timely payment of the Tipping Fees, and shall each year, commencing with the Fiscal Year 1985-86, appropriate from its General Fund as a first budget obligation sufficient monies to pay such Tipping Fees." (emphasis added).

As a result of the language included in this agreement, it becomes a primary budget obligation to provide for the DPW Tipping Fee. It can be argued that this obligation supersedes the City's obligation to provide police, fire, sanitation and other generally recognized City services. It appears that the only way to avoid appropriating the Tipping Fee from the General Fund is if the City is actually in a default position resulting from bankruptcy, and the fee can then be assigned directly against the Detroit property owner. This would be done by assessing directly against the residential users of the Authority's Resource Recovery facility based on a flat annual fee and against commercial users of the facility based upon individual contracts.

The GDRRA bonds were refinanced in March 1996. As a result of the refinancing, the City will save approximately \$184 million over the remaining life of the GDRRA bonds.

The Tipping Fee amount is calculated by taking the sum of the operating fee, the authority's administrative expenses, plus debt service, less the authority's revenues. The attachment presents the request and calculation in detail.

The DPW budget contains funds for the Tipping Fees in a single appropriation. In the 2007-08 Mayor's Recommended Budget the complete Solid Waste Division, including the appropriation for the Tipping Fee is being moved from the General Fund to the recently created Solid Waste Management Fund.

<u>Appropriation</u>	<u>2006-07 Budget</u>	<u>2006-07 Recommendation</u>	<u>Change</u>
0040 – Refuse Disposal			
Tipping Fee	\$ 88,355,067	\$ - 0 -	\$(88,355,067)
12398 – Refuse Disposal			
Tipping Fee	- 0 -	86,510,634	86,510,634
Annual Total Comparison	\$ 88,355,067	\$ 86,510,634	\$(1,844,567)



The FY 2007-08 proposed Tipping Fee represents a decrease of 2.09%. The Tipping Fee decrease is the net result of operating expenses, including debt service decreasing by 0.72% and estimated revenues increasing by 2.18%.

### Issues and Questions

1. Explain the \$868,651, a 34.64% increase in Authority Administrative Expenses.
2. In November/December of 2005, GDRRA was working on awarding a contract for "Strategic Planning for Solid Waste Disposal Alternatives for GDRRA. Are we correct that the firm of Dvirka and Bartilucci was retained by GDRRA to help determine the future direction that the city and GDRRA should take? How much was the contract amount? How much has been paid thus far? What has the firm identified as the various options, and what is their recommendation for the resource recovery facility after the final debt payment is made in October 2009? Are any other consultants being used to determine the future use of GDRRA?
3. The original deal for the construction of the facility and the refinancing of the resource recovery facility was very complicated, and various players were involved. Provide an explanation of the current interested parties, what their interest, responsibilities, liabilities and benefits are, as well as when the agreements expire.
4. According to the Executive Budget for 2007-08 the following are targets for the Solid Waste Division of DPW: Tons of refuse collected, 320,000, Tons of bulk collected, 120,000, and Tons of yard waste collected 50,000. Will all of this be processed by GDRRA? If not, what would not be processed by GDRRA?
5. Assuming the above targets are correct, provide the current cost if this material was sent directly to a landfill. It is understood that a contract agreement would have to be made, but use your best judgment on estimating what the City would expect to pay at today's rates.
6. What is the overall condition of the plant anticipated to be like when the debt is retired in a few years? What was the life expectancy of the plant and equipment originally? Is the facility holding up in operation as planned? Is the facility in need of major or minor repairs? What is the estimated investment needed for repairs or improvements to extend the useful life?
7. The sale of steam represents a large portion, more than 70% of the energy revenue generated by the resource recovery operation. What is the condition of the steam distribution system? What is the number of customers (mainly downtown office building?) still using steam compared to when the plant was opened? What is the likely demand for steam or potential for steam sales past October 2009?

8. The CAFR indicates that upon the expiration of the lease in October 2009, the GDRRA has options to renew the lease or to repurchase the facility. Is the repurchase price already determined as part of the original agreement? Is so what is the repurchase price? If not, what will the basis for the repurchase price be?
9. The proposed budget includes a new electric management agreement in the Public Lighting Department budget, gaining an estimated \$5.0 million in revenue. Is the GDRRA involved in the proposed deal? If you are, can you provide details of the agreement and GDRRA participation?

IC:JGP

Attachment



**Greater Detroit Resource Recovery Authority  
Operating Budget Request**

	2006-07	2007-08		%
	<u>Budget</u>	<u>Recommended</u>	<u>Inc/(Dec)</u>	<u>Inc/(Dec)</u>
<b>Expenses:</b>				
Net Debt Service	\$ 52,605,130	\$ 52,093,906	\$ (511,224)	-0.97%
Net APC Debt Service	17,576,163	18,192,047	615,884	3.50%
Labor and Plant Maintenance	19,491,393	19,662,461	171,068	0.88%
Contractual Services/Other Costs	3,555,413	3,586,618	31,205	0.88%
Sales Taxes and Add'l Oper. Reven	3,652,767	3,684,826	32,059	0.88%
Lime Addition	1,127,762	1,277,508	149,746	13.28%
Purchased Electricity	193,906	285,194	91,288	47.08%
Other Fuels	1,002,096	1,452,629	450,533	44.96%
Water	784,031	787,800	3,769	0.48%
Sewerage	1,969,877	1,562,030	(407,847)	-20.70%
Electrical Intertie Maintenance	156,357	156,357	-	0.00%
Steamline Maintenance	870,723	848,720	(22,003)	-2.53%
Insurance	1,565,461	1,565,460	(1)	0.00%
Supplemental Taxes	1,207,376	1,565,738	358,362	29.68%
Hauling and Disposal Costs	17,836,854	17,870,875	34,021	0.19%
Authority Administrative	2,507,765	3,376,416	868,651	34.64%
Escrow Fee (Authority)	1,113,204	1,113,204	-	0.00%
Deficit Reduction Contribution	2,800,000	-	(2,800,000)	-100.00%
<b>TOTAL EXPENSES</b>	<b>\$ 130,016,278</b>	<b>\$ 129,081,789</b>	<b>(934,489)</b>	<b>-0.72%</b>
<b>Revenues:</b>				
Steam Sales	\$ 30,312,689	\$ 30,984,446	671,757	2.22%
Electricity Sales	12,295,693	12,368,106	72,413	0.59%
Operators Energy Revenue	(6,271,257)	(6,382,883)	(111,626)	1.78%
Investment Earnings	-	-	-	
Private Hauler Fees	4,920,098	5,178,126	258,028	5.24%
Recovered Material	403,988	423,360	19,372	4.80%
<b>TOTAL REVENUES</b>	<b>\$ 41,661,211</b>	<b>\$ 42,571,155</b>	<b>909,944</b>	<b>2.18%</b>
<b>TIPPING FEE</b>	<b>\$ 88,355,067</b>	<b>\$ 86,510,634</b>	<b>(1,844,433)</b>	<b>-2.09%</b>